

CAREC Customs' Capacity and Challenges for Cross-Border E-commerce



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Paperless Trade
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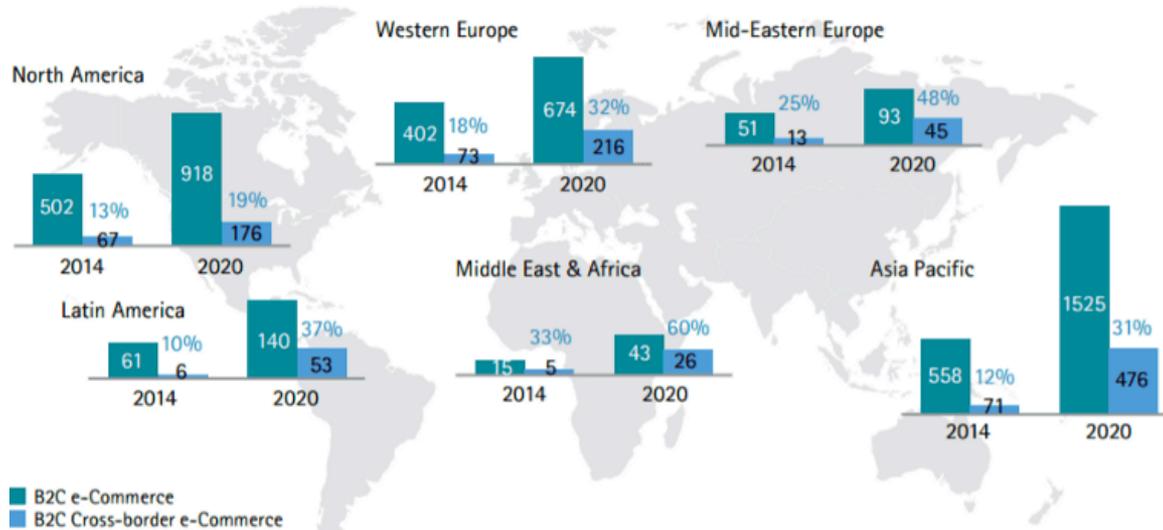
Outline

CAREC Customs' Capacity for Cross Border E-Commerce (CBEC)

- 1. CBEC Trends and Modes of Entry**
- 2. Challenges to Customs**
- 3. WCO Framework of Standards & new rules**
- 4. Duty and Tax Collection**
- 5. Electronic Data**
- 6. Risk Management**
- 7. Way Forward**

Cross Border E-Commerce (CBEC) Growth

Global cross-border B2C e-Commerce transaction value (US\$ billion)



■ B2C e-Commerce
■ B2C Cross-border e-Commerce

Region	2014-20 incremental B2C cross-border e-Commerce trade volume (billion dollars)	Contribution of global total incremental trade volume (%)
Asia Pacific	405	53.6%
Western Europe	143	18.9%
North America	109	14.4%
Latin America	47	6.2%
Mid-eastern Europe	32	4.2%
Middle-East and Africa	21	2.7%

- CBEC is growing big and fast
- CBEC is **53% of total trade** in Asia Pacific
- CBEC growth is **> 20% per year** - fastest growing segment of global trade.

Post COVID-19 pandemic CBEC will become a major driving force for stabilizing foreign trade

CBEC Consignments

Amazon, E-Bay, Alibaba accounted for 56% of CBEC purchases

- Amazon 64% in Austria
- E-Bay 63% in Cyprus
- Alibaba 69% in Russia

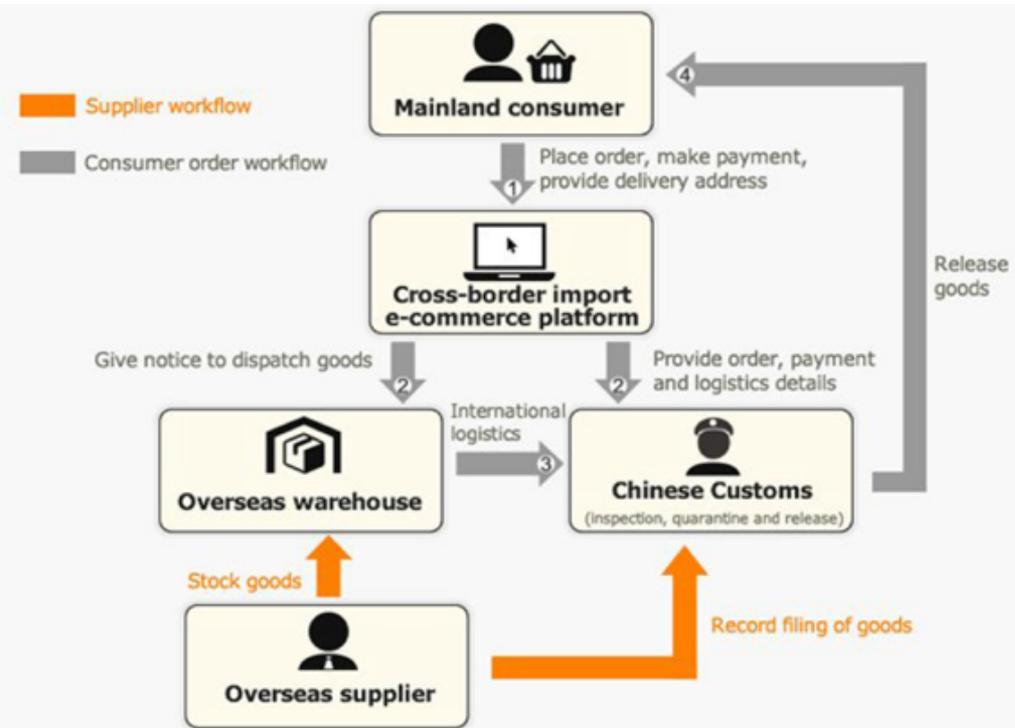
84% of all CBEC cargo are
“small packets” (below 2 kg)



Characteristics of CBEC Consignments

- Small value packages (not containerised or bulk cargo)
- Low / High-value - depending on de-minimis threshold
- Each parcel is a consignment = declaration – individual consignee
- Too many declarations to Customs

CBEC – Direct Import



Direct Import (B2C):

“Order First, Delivery Later” mode

- Purchaser orders on a CBEC platform
- Goods are delivered from overseas
- Logistics provider submits to Customs for clearance
- After customs clearance, inspection and duty collection, the product is delivered to the purchaser

Advantages

Labour and land costs saving via centralised strategy with one regional hub

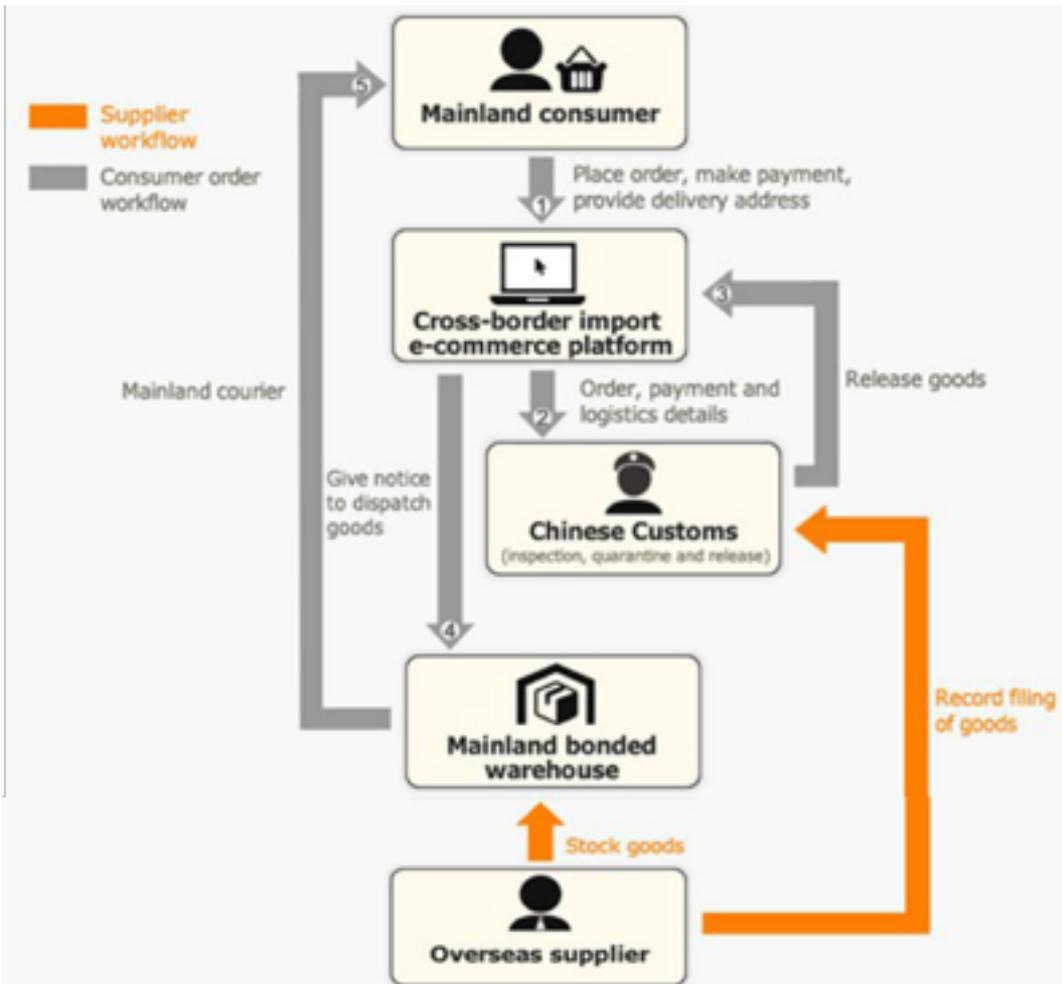
No heavy upfront investments in new markets

Less inventory risks and costs of inventory

Fewer logistic partners involved

Save tax/duty/VAT if order values below de minimis¹

CBEC – Bonded Import



Bonded import (B2B2C): “Stock First, Order Later” mode

- A large quantity of foreign goods is stored in **CBEC bonded zone**
- Upon purchase, the platform operator submits a declaration to Customs for customs clearance.
- Customs conducts goods clearance at the CBEC bonded zone, and releases these for delivery to the purchaser.

Advantages

Orders can be delivered in a shorter time

Lower transportation costs while higher volumes can be handled

Popular local payment methods, such as cash-on-delivery, can be arranged and managed locally

Inventory flexibility – wider Stock Keeping Unit (SKU) and higher quantities availability

Gain local market knowledge

CBEC - Challenges

Trade Facilitation and Security

- **Dealing with CBEC Consignments – Very large number, Lower value small packets**
- Increasing volumes – Speed and efficiency
- Security risks - Limited knowledge on importers and supply chain
- Data quality - Accuracy and adequacy
- Trader statistics - Gaps

Fair and Efficient Collection of Duties And Taxes

- **De minimis**
- **Revenue - Loss of Customs duty, VAT/GST**
- Splitting, under-invoicing and mis-declaration
- Impact on domestic retailers
- Classification and origin

Society Protection - criminal exploitation of e-commerce

- **Illicit trade and smuggling**
- Drug trafficking
- Counterfeited and pirated goods
- Illicit financial flows & Money laundering

WCO Framework of Standards for CBEC

WCO developed a **Framework of Standards on Cross-Border E-Commerce**



Legal Framework for Advance Electronic Data

Use of International Standards for Advance Electronic Data

Risk Management for Facilitation and Control

Use of Non-Intrusive Inspection Technologies and Data Analytics

Simplified Clearance Procedures

Expanding the Concept of AEO to Cross-Border E-Commerce

Models of Revenue Collection

De Minimis

Prevention of fraud and Illicit Trade

Inter-Agency Cooperation and Information Sharing

Public-Private Partnerships

International Cooperation

Communication, Public Awareness and Outreach

Mechanism of Measurement

Explore technological developments and innovation

WCO Framework of Standards for CBEC

- Provides for the effective management of CBEC from both facilitation and control perspectives
 - Promotes global standards to promote certainty, predictability, transparency, safety and security, and efficiency in the e-commerce supply chain.
 - Foster Co-operation - strengthen co-operation between Customs, other Government agencies and other stakeholders
1. **Revenue Collection** – **de-minimis** threshold balancing
 2. **Procedural** - **advance electronic data exchange, simplified clearance**
 3. **Managing risks** – new approach to **risk assessment & release**

New Rules Needed to Deal with CBEC

Example : PRC – updated E-commerce laws in 2019

- Cross-Border E-commerce Retail Imports Regulation ("The Circular");
- Notice of Improving the Tax Policy of Cross-Border E-commerce Retail Imports Regulation
- Goods List of Cross-Border E-commerce Retail Imports Regulation ("Goods List").
- **Registration and licensing of e-commerce operators (e.g. platform operators and express firms)**
- **De-minimis thresholds for exempting CBEC from duties**
 - increased from CNY 2,000 to CNY 5,000 ; annual quota increased from CNY 20,000 to CNY 26,000
 - duties are exempted and import VAT and consumption taxes are collected at a 30% discount for the products imported through the CBEC channel.
- **Positive lists** - tariff categories for the products permitted to be sold under CBEC.
- **FTZ distribution centre** - stockpile products in designated CBEC bonded zones

Collection of Duties And Taxes - De Minimis Regulations

- Duties and taxes for CBEC are normally collected on goods with a value **above the de minimis threshold**.
- Most countries de-minimis threshold is < US\$200

Low-value consignments below de minimis value rule

- no duties and taxes are collected
- no Customs declaration is required, and
- immediate release may be granted on the basis of a consolidated declaration (manifest, waybill, items inventory), or following a simplified goods declaration

Low-value dutiable consignments – above the de minimis value

- duties and taxes will be levied
- can be cleared using a simplified goods declaration or by providing information enabling the amount of the duties and taxes payable to be calculated.

De Minimis Regulations in CAREC

Country	ISO	Duty de minimis	Tax de minimis
 Afghanistan	AF	0.00 USD	0.00 USD
 Azerbaijan	AZ	0.00 USD	0.00 USD
 China, People's Republic of	CN	5000 CNY	0.00 CNY
 Georgia	GE	170.00 USD	170.00 USD
 Kazakhstan	KZ	500.00 EUR	500.00 EUR
 Kyrgyzstan	KG	120.00 USD	120.00 USD
 Mongolia	MN	0.00 MNT	0.00 MNT
 Pakistan	PK	0.00 USD	0.00 USD
 Tajikistan	TJ	0.00 USD	0.00 USD
 Turkmenistan	TM	0.00 USD	0.00 USD
 Uzbekistan	UZ	1000.00 USD	1000.00 USD

- 6 CAREC countries have zero de minimis for duties & taxes
- Balance between “Loss of revenue” versus “Burden to collect duties and taxes on all CBEC”
- Reform of de minimis regulation needed to promote CBEC

De Minimis Regulations

Case for Higher De Minimis –

- Higher de minimis thresholds are critical for CBEC, benefiting consumers and SMEs; postal services and express firms can reduce handling costs and shorten delivery times.
- The exemption also means that governments are foregoing revenue.

Case for Lower De Minimis –

- Consumption tax (VAT/GST) are paid on domestic purchases regardless of value, but overseas purchases via CBEC are exempt from VAT/GST (value < de minimis)
- Strong pressure to treat CBEC imports and domestic sales equally
- However, with lower de minimis thresholds, logistic costs are a major burden.

Recent example of adjustment in **‘de minimis’ exemptions:**

European Union - From January 2021, EU will eliminate its VAT ‘de minimis’ exemption on small consignments from that date.

Collection of Duties – How & From Whom

Example:

Turkey – Authorized Express Cargo Companies and Postal Authorities collect taxes on behalf of the Customs authority and then, within 7 working days, they pay the taxes collected to the Customs authority.

US - Postal Service, Express Operators and/or Brokers collect duties directly from recipients that were paid to Customs on their behalf.

PRC – CBEC Platform Operator or Logistics Operators are registered with Customs, are obliged to declare / provide relevant information to Customs and pay the duties before collecting these from clients.

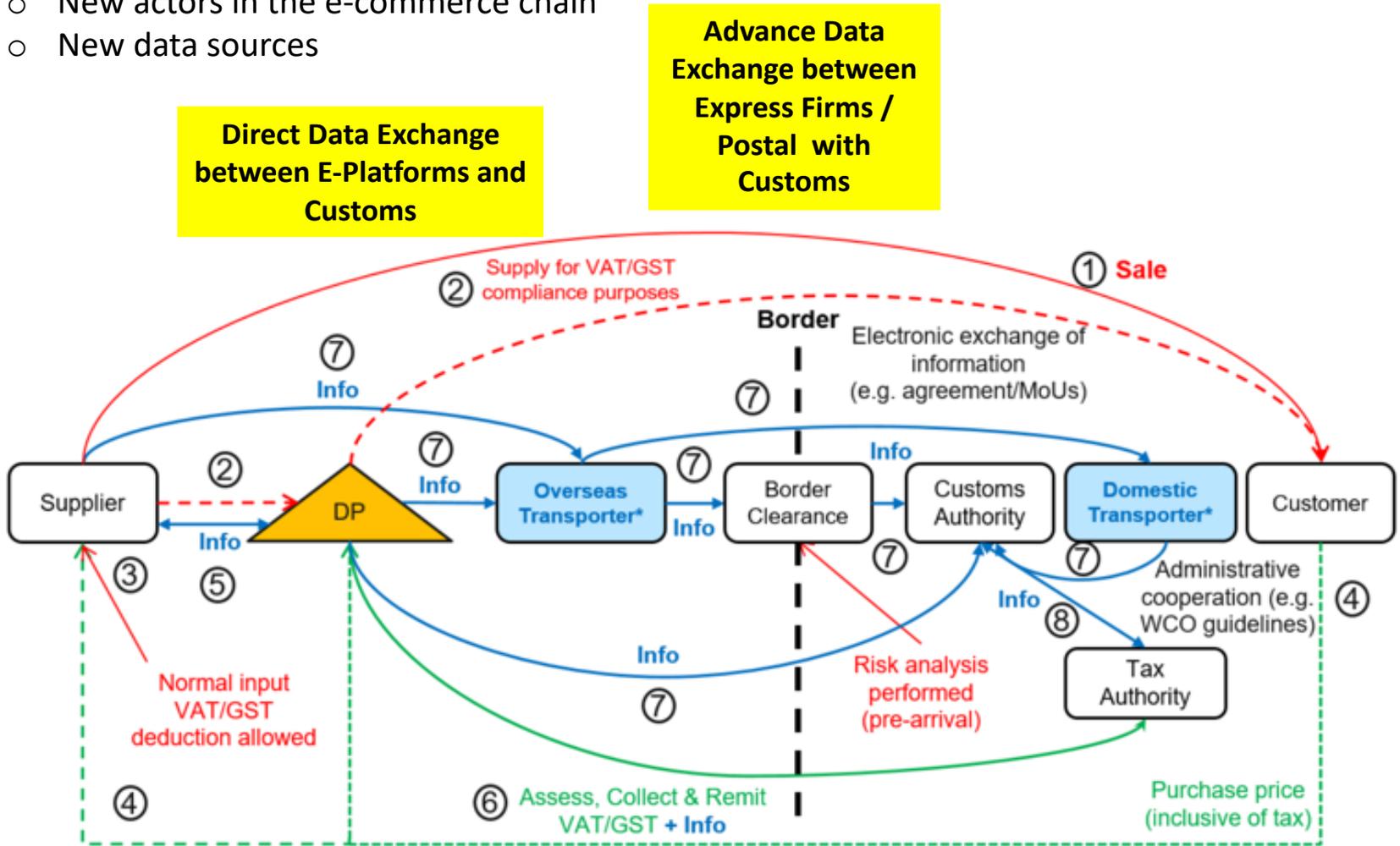
Eurasian Economic Commission (EAEC) - stipulate that Customs duties and taxes will be paid by Express Carriers

Many countries prefer the “intermediaries mode” (platform operator/ express companies) of collecting duties and taxes as they consider it as effective and efficient.

CBEC Data for Goods Clearance

Trade Facilitation & Risk Management

- New actors in the e-commerce chain
- New data sources



* Source: OECD Mar 2019 - The role of digital platforms in the collection of VAT/GST on online sales

CBEC Advance Electronic Data

- **Advance electronic data** is essential for CBEC for effective risk management
- **Streamlined declaration data** for CBEC consignments
- **Simplified declaration and clearance process** for goods below the de minimis value.
- Customs should stipulate the data required, method for collecting the data, and which parties will submit.
- E-commerce platform operator and logistics provider are best positioned to provide that data.

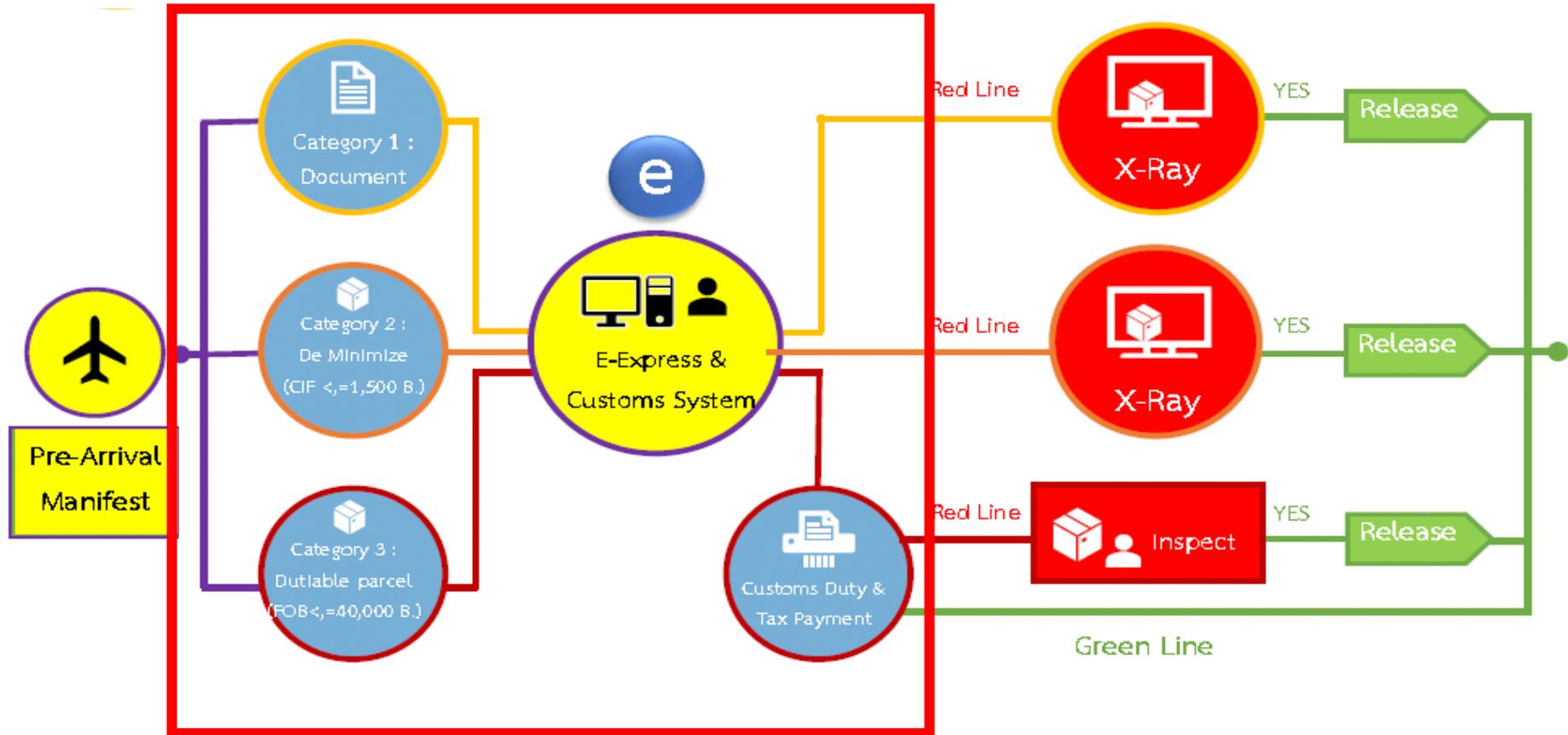
Table C.2. Minimum information available to each stakeholder in the supply chain

Stakeholder	Nature of the goods	Value	Country of destination	Time of import/ delivery	Transportation data	Taxes and duties (incl. thresholds)
Purchaser	Yes	Yes	Yes	Yes	Maybe	Maybe
Vendor	Yes	Yes	Yes	Maybe	Yes	Maybe
Transparent e-commerce platform	Some	Yes	Maybe	Maybe	Maybe	Some/Maybe
Express carrier	Yes	Yes	Yes	Yes	Yes	Yes
Postal operator	Maybe	Maybe	Yes	Yes	Yes	Yes
Financial intermediary	No	Yes	Maybe	No	No	No

* Source: <https://www.euroexpress.org/uploads/ELibrary/CDS-Report-Jan2015-publishing-final-2.pdf>

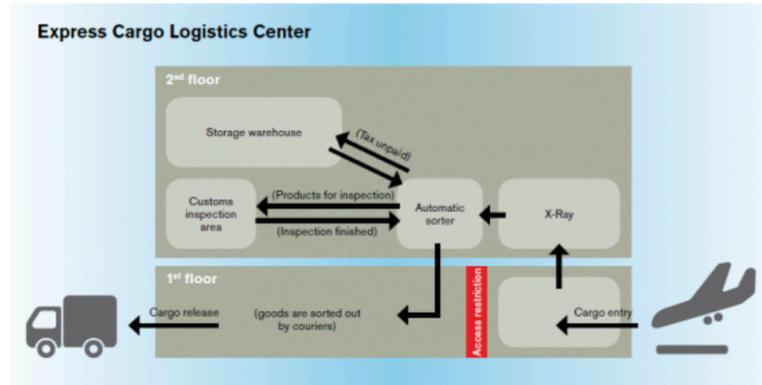
CBEC Risk Management – Thailand

Thailand Customs Risk Management for Express E-Commerce Consignments



CBEC Consignment Inspection

CBEC Inspection



Suggestions Developing CAREC Customs Capacity for CBEC

1. Establish new rules, regulations specific to CBEC and the industry stakeholders (platform operators , logistics providers)
2. Review the de minimis thresholds – esp. to raise the de minimis to promote CBEC and reduce logistics burdens
3. Establish duties & taxes collection regime for CBEC
4. Introduce advance electronic data collection and simplified declaration / expedient clearance regime
5. Re-examine existing Risk management for CBEC consignments
6. Enhance inspection regimes for CBEC